

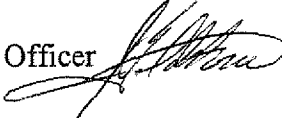


THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: September 24, 2007

TO: Honorable Council President and Councilmembers

FROM: Jay M. Goldstone, Chief Operating Officer 

SUBJECT: Reserve Calculation

Attached for your information is the City's first General Fund reserve calculation for fiscal year 2008 using "final" unaudited June 30, 2007 financial results. As per the proposed Reserve Policy, reserve used in this context refers to working capital which is current assets less current liabilities adjusted for encumbrances and other restricted cash. The unaudited reserve calculation for the General Fund as of June 30, 2007 is \$93.1 million. Following the Council action in July, the balance currently stands at \$92.4 million. Staff will provide this information to you on a regular basis and will update it every time there is a request to the City Council to use Reserves for an unanticipated expenditure.

Consistent with the proposed Reserve Policy, the required reserve level for fiscal year 2008 is approximately \$66 million. As you review this information, there are several points I wish to bring to your attention to put this information into context.

1. On Wednesday September 26, 2007, staff will present to the Budget and Finance Committee a year-end report on the unaudited financial results of the City. This report points out that during fiscal year 2007, the City's General Fund revenues exceed expenditures by \$43.98 million. This is about a 4% positive variance and is the result of a combination of revenues received being \$31.48 million greater than originally estimated and expenses being \$12.5 million less than originally estimated.
2. When you add the \$43.98 million to the fiscal year 2007 beginning cash balance and then adjust for encumbrances and other restricted cash, the City's fiscal year 2008 beginning reserve/working capital balance is \$93.1 million.

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3. In addition to the year-end report on the unaudited financial results of the City, on Wednesday September 26, 2007, staff will ask the Budget and Finance Committee to consider a revised City Reserve Policy which calls for an overall 8% General Fund Reserve. The Policy recommends and the fiscal year 2008 incorporates funding to bring the reserve to approximately 6%. The Policy recommends increasing this reserve each year thereafter by 0.5% until the balance is at least 8.0%. As such, the fiscal year 2009 budget would include funding to bring the reserve balance to 6.5%, while the fiscal years 2010, 2011 and 2012 budgets will include funding to bring the reserve balance to 7.0%, 7.5% and 8.0%, respectively.
4. Before the end of the calendar year, the Mayor will present his updated Five Year Financial Outlook. This will continue to fund the eight priority areas and will include funding of the General Fund reserve at a level consistent with the proposed Reserve Policy and as stated in number 3, above. The updated Five Year Financial Outlook will also include funding to build other critical reserves such as the Public Liability and Workers' Compensation Funds.
5. In addition, the updated Five Year Financial Outlook will include funding for other critical one-time capital improvement projects.

While the fiscal condition of the City continues to improve, continued fiscal discipline is critical. The City Council has demonstrated great fiscal resolve over the past few years and there has been a great partnership between the Council and the Mayor to reprioritize spending to address past obligations of the City and to build a strong financial foundation for the future. While there will be a tendency to want to spend a portion of these funds for new initiatives, now is not the time.

It is recognized that there will be a number of unanticipated items that will arise throughout the fiscal year that will require supplemental appropriations and a portion of these funds will be used accordingly. Any use of these funds will be brought back to the City Council for approval.

Attachment

Cc: Honorable Mayor Jerry Sanders
Greg Levin, City Comptroller
Mary Lewis, Financial Management Director
Andrea Tevlin, Independent Budget Analyst

Estimated General Fund Working Capital/Reserve (Unaudited)
As of September 20, 2007

2006 Ending Cash or Equity in Pooled Cash and Investments	97,835,011
Receivables (Due Within 60 Days)	63,832,530
Payables	<u>(33,687,584)</u>
Working Capital Beginning Balance	127,979,957
Encumbrances	(33,718,808)
Other Restrictions	(1,150,857)
Amount Reserved for Fiscal Year 2009 Budget Priorities	<u>0</u>
	<u>(34,869,665)</u>
Total Working Capital at 07-01-07	<u><u>93,110,292</u></u>

Actions Taken Since 7-1-07	
Contract Amendment for Macias, Gini & O'Connell	(688,000)

Total Actions Taken to Date	<u>(688,000)</u>
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Working Capital as of September 20, 2007	<u><u>92,422,292</u></u>
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Actions Under Consideration

Working Capital Following Proposed Action	<u><u>92,422,292</u></u>
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